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Office of Fiscal and Program Review

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FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

FEBRUARY 2008

Volume 2 Number 2

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



Month In Review

January's General Fund revenue performance was substantially under budget. While about half of the monthly variance was a timing issue, the performance confirmed the need for further downward adjustment by the Revenue Forecasting Committee (RFC). The RFC revised General Fund revenue downward by an additional \$94.8 million in the 2008-2009 biennium.

Highway Fund revenue was over budget in the month of January and resulting in a slight positive variance for the fiscal year through January. The RFC revised Highway Fund revenue downward by \$4.3 million in the current biennium, largely the result of the economic forecast and higher fuel prices.

Shortly after the release of the more pessimistic economic forecast by the Consensus Economic Forecasting Commission and the news regarding the federal Medicaid rule changes, the Appropriations Committee directed policy committees to achieve additional General Fund savings of \$99 million in the hope of not losing too much time waiting for the Revenue Forecasting Committee.

With the final numbers established by the revenue forecast, the revenue shortfall turned out much greater than anticipated by the \$99 million savings target set by the policy committees, but the cost estimates of the other significant factor in establishing the target, the federal Medicaid rule changes, have been reduced (see page 4).

The Administration has committed to submitting a new set of budget proposals to address the additional shortfall, the so-called "Change Package," during the first week in March. Given the size of the "Change Package" (as large an adjustment as the original supplemental budget proposals), the Appropriations Committee is planning to allow public comment on the proposals.

General Fund Revenue Update

Total General Fund Revenue - FY 2008 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
January	\$298.2	\$278.0	(\$20.2)	-6.8%	\$280.1	-0.8%
FYTD	\$1,599.9	\$1,571.9	(\$28.0)	-1.8%	\$1,561.6	0.7%

General Fund revenue for January was under budget by \$20.2 million, increasing the negative variance for the Fiscal Year-to-date (FYTD) to \$28.0 million (1.8%). This variance is based on the revised December 2007 forecast, which lowered FY 2008 General Fund revenue by \$37.8 million.



General Fund Revenue Update—continued

The largest negative variance in January was in the Individual Income Tax category, which was under budget by \$20.5 million in January. However, \$10.3 million of the negative variance is related to the timing of payments of the BETR program. BETR

payments are still expected to be close to budget for the fiscal year.

Most of the major tax lines were under performing relative to the new revenue forecast and were revised within the March revenue forecast.

Highway Fund Revenue Update

Total Highway Fund Revenue - FY 2008 (\$'s in Millions)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Jan.	\$24.7	\$25.1	\$0.5	2.0%	\$24.8	1.4%
FYTD	\$173.2	\$173.3	\$0.0	0.0%	\$172.2	0.6%

Highway Fund revenue was over budget in January by \$0.5 million, eliminating the negative variance for the FYTD. FY 2008 Highway Fund revenue through January is just slightly ahead of budget and

shows a modest, but positive growth rate of 0.6% over the same period in FY 2007. While Fuel Tax revenue was running ahead of budget through January, the Motor Vehicles Registration and Fees category remained under budget by \$1.3 million through January. Both of these categories were revised downward in the March 2008 revenue forecast.

Cash Balances Update

Average balance for the total cash pool in January was \$583.3 million, compared to an average balance for the month of January for the last 6 years of \$600.8 million. Cash balances continue to remain close to historical averages despite the fact that the State has relied on borrowing from within the cash

pool rather than using external, short-term borrowing in the form of Tax Anticipation Notes. General Fund internal borrowing averaged \$115.8 million in January, \$41.8 million more than last January. The increase of General Fund internal borrowing largely reflects this fiscal year's negative revenue variances.

Summary of Treasurer's Cash Pool	
January 2008 Average Daily Balances	
Millions of \$'s	
General Fund (GF) Total	\$49.0
General Fund (GF) Detail:	
Budget Stabilization Fund	\$118.0
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$115.8
Other General Fund Cash	(\$225.3)
Other Spec. Rev. - Interest to GF	\$56.1
Other State Funds - Interest to GF	\$0.0
Highway Fund	\$27.8
Other Spec. Rev. - Retaining Interest	\$75.5
Other State Funds	\$257.0
Independent Agency Funds	\$117.8
Total Cash Pool	\$583.3

**March 2008 Revenue Forecast**

On February 25th, the Revenue Forecasting Committee (RFC) met and brought closure to the speculation regarding the size of the revenue

shortfall. Presented below is a table summarizing the revenue adjustments for each of the major funds forecast by the RFC.

Summary of March 2008 Revenue Revisions

Millions of \$'s

General Fund Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$3,019.6	\$3,067.9	\$3,136.5	\$3,206.4	\$3,236.9
Annual % Growth	3.0%	1.6%	2.2%	2.2%	1.0%
Net Increase (Decrease)		(\$26.9)	(\$67.9)	(\$66.0)	(\$74.0)
Revised Forecast	\$3,019.6	\$3,041.0	\$3,068.6	\$3,140.4	\$3,162.9
Annual % Growth	3.0%	0.7%	0.9%	2.3%	0.7%

Highway Fund Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$330.8	\$328.6	\$339.2	\$344.0	\$348.9
Annual % Growth	1.3%	-0.7%	3.2%	1.4%	1.4%
Net Increase (Decrease)		(\$2.3)	(\$2.0)	\$3.0	\$2.0
Revised Forecast	\$330.8	\$326.4	\$337.2	\$347.0	\$351.0
Annual % Growth	1.3%	-1.3%	3.3%	2.9%	1.1%

Fund for a Healthy Maine Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$51.0	\$61.4	\$65.6	\$70.6	\$69.7
Annual % Growth	8.6%	20.4%	7.0%	7.5%	-1.3%
Net Increase (Decrease)		(\$0.1)	(\$0.0)	(\$0.0)	(\$0.0)
Revised Forecast	\$51.0	\$61.3	\$65.6	\$70.6	\$69.7
Annual % Growth	8.6%	20.3%	7.1%	7.5%	-1.3%

Medicaid/MaineCare Dedicated Revenue Taxes Summary

	FY07 Actual	FY08	FY09	FY10	FY11
Current Forecast	\$125.7	\$129.6	\$131.4	\$130.5	\$135.0
Annual % Growth	6.4%	3.1%	1.4%	-0.7%	3.5%
Net Increase (Decrease)		(\$0.3)	\$1.3	\$0.5	\$0.5
Revised Forecast	\$125.7	\$129.3	\$132.7	\$131.0	\$135.6
Annual % Growth	6.4%	2.8%	2.7%	-1.3%	3.5%

(Amounts may not add due to rounding)

The summary letter and tables summarizing the March 2008 forecast is now posted at: <http://www.maine.gov/legis/ofpr/rfcmain.htm>. As noted in the summary letter, this forecast is driven primarily by a deteriorating national economy, which is having its most significant effect on consumption taxes. The revenue categories most affected within this revenue revision are the sales tax, gas tax, cigarette tax and the real estate transfer tax. The national corporate profitability picture proportionately affects Maine's corporate income tax, the other major negative adjustment within this forecast.

The other remaining substantial changes within this forecast are the net reductions of \$18.3 million for the 2008-2009 biennium to General Fund revenue collected by the Department of Health and Human Services. Of this amount, \$12.2 million represents the estimated revenue loss from the federal Medicaid rule changes. The General Fund revenue loss associated with these rule changes represents only a piece of the total impact of the rule changes and relates to targeted case management services provided by state employees within the Department of Health and Human Services.



Update on Additional Savings Targets

In an effort not to lose too much time waiting for the Revenue Forecasting Committee to establish the size of the shortfall, the Appropriations Committee directed the policy committees to come up with additional General Fund savings of \$99 million for the 2008-2009 biennium and include those recommendations in required budget report backs to the Appropriations Committee.

In the interest of informing the committees of how their target was derived, the Appropriations Committee promulgated details of how a proportional amount of the total General Fund appropriations under each committee's purview was calculated as well as the committee's total target. The information was presented as a listing of each program not excluded from additional cuts, the program's General Fund appropriation, and its proportional share of the total target. They hoped to make it very clear that this detail was only informational and that each committee was to allocate the total target among the programs as they saw fit using the expertise derived from their oversight activities. The letter directed them to look at programs under their jurisdiction and prioritize programs for possible elimination. A copy of the letter and the savings target detail is available at: http://www.maine.gov/legis/ofpr/08_09_Supplemental_Budget/budget_materials.htm.

After the Revenue Forecasting Committee reported an additional revenue shortfall of \$94.8 million for the biennium, many policy committees asked whether their targets would be reduced. The answer is, unfortunately, no. The original target of \$99 million was the middle option of 3 targets presented by the Administration to the Appropriations Committee. That middle option was based on an assumed revenue revision of \$50 million over the biennium and \$49 million loss in federal funding for Medicaid services as a result of the federal Medicaid rule changes. This \$49 million was but a portion of the total potential loss. The choice of this "middle option" was not intended to imply that a policy decision had been made to fully fund a specific portion of the affected services.

The revenue forecasting results were much worse than anticipated in the earlier calculations for the savings targets, but there has been some reductions in the estimated cost of the Medicaid rule changes. At this point, the methodology in deriving the targets should be considered irrelevant. The requests for targets served their purpose of trying to begin the work of coming up with additional savings ideas before the end of February and the conclusion of the revenue forecast.

Medicaid Rule Changes

The Department of Health and Human Services (DHHS) and the Department of Education (DoE) continue to refine their analyses of the impact of new federal regulations affecting reimbursement for a number of Medicaid service categories, including: targeted case management (TCM) services (effective March 3, 2008); rehabilitation services (effective July, 1, 2008); hospital outpatient physician services (effective date not determined); school-based administrative and transportation services (effective February 26, 2008); and certified seed-funded services (effective May 25, 2008). The departments have been meeting with providers to determine the impact of these regulations on services provided by the MaineCare program. They also continue to participate in national efforts to modify or delay the impact of the regulations.

In January, the departments provided a preliminary estimate of the net costs to the General Fund resulting from the federal changes of \$6.9 million for FY 2008 and \$38.1 million for FY 2009, with additional federal funding losses to the larger provider community. In recent meetings with the AFA and HHS Committees, DHHS has reduced its estimate of the General Fund impact of the federal regulations to \$2.1 million in FY 2008 and \$31.4 million in FY 2009, and continues to refine estimates of the impact of the loss in federal funds on the larger provider community.

As discussed earlier in this issue of *Fiscal News*, a portion of the impact of the targeted case management regulations is reflected in the Revenue Forecasting Committee's (RFCs) March 2008 forecast. This portion represents Medicaid targeted

**Medicaid Rule Changes—continued**

case management reimbursement for services provided by state-employed case managers which is treated as General Fund revenue. The forecasted decrease in targeted case management revenue as a result of the rule change is \$12.2 million over the 2008-2009 biennium (out of a total forecasted decrease of \$15.0). With this \$12.2 million loss now reflected in the RFC forecast, the balance of the GF

impact of the regulations is expected to be approximately \$20 to \$25 million over the biennium. This estimate assumes that there will be no delays in the implementation of the rule changes. It also assumes that all services currently provided by the state will continue and that the loss of the federal portion payments to community providers will not be replaced from the General Fund.

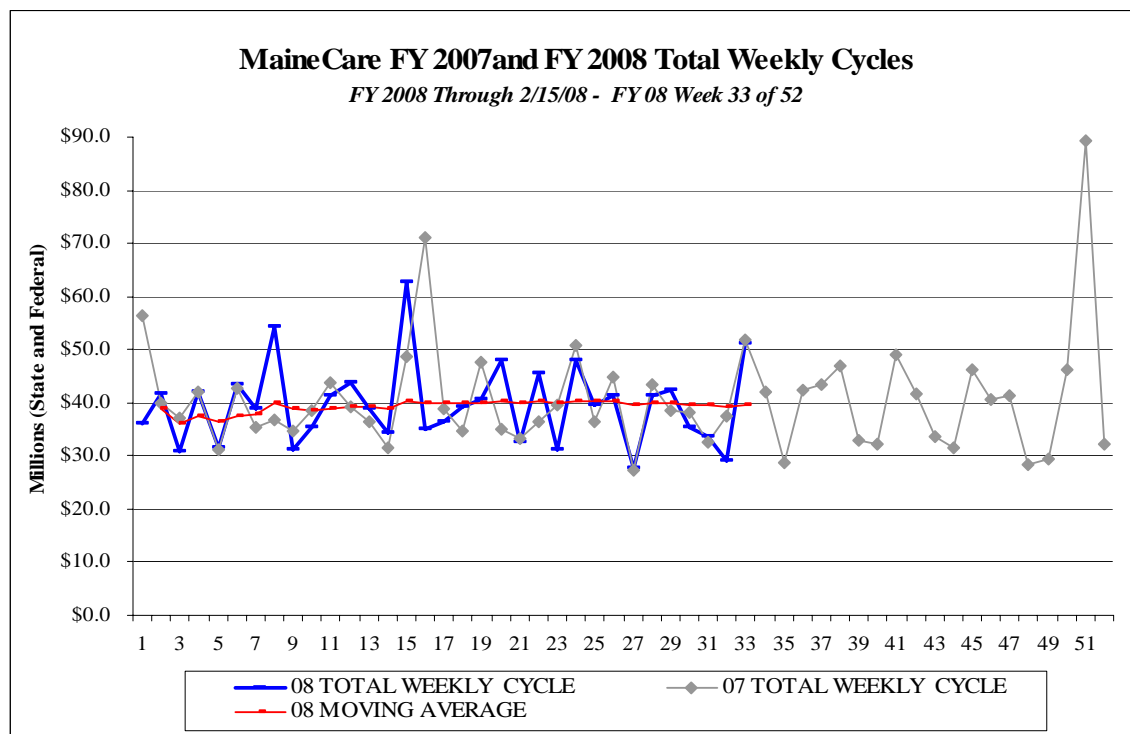
	General Fund Impact - Medicaid Rules*		
	2007-08	2008-09	Biennium
Revised Estimated Impact (2/22/08)	\$2,113,000	\$31,420,000	\$33,533,000
March RFC TCM Revenue Adjustment	(\$1,100,000)	(\$11,100,000)	(\$12,200,000)
Balance of GF Impact	1,013,000	20,320,000	21,333,000

*Other combinations of delayed rule changes and replacement of lost federal dollars from the General Fund result in different impacts.

MaineCare Spending Update

The table below summarizes MaineCare weekly cycle payments for FY 2008. Average weekly cycle payments for FY 2008 are currently averaging \$39.5 million (state and federal dollars) through Week 33 of 52. For comparison purposes, the table also includes FY 2007 MaineCare weekly cycle payments. While DHHS began capping FY 2007 weekly cycles on

Week 33 of 52 last year at \$36.5 million per week, for comparison purposes “uncapped” FY 2007 weekly cycle payments are reflected here. (Note: FY 2008 “high points” at Weeks 8 and 15 include hospital settlement payments. FY 2007 “high points” also reflect hospital settlements and for week 51, decreasing the “capped claims” balance.)



General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2008
Reflecting Budgeted Amounts Through December 2007 Revenue Forecast

JANUARY 2008 REVENUE VARIANCE REPORT

Revenue Line	January '08 Budget	January '08 Actual	January '08 Variance	FY08 YTD Budget	FY08 YTD Actual	FY08 YTD Variance	FY08 YTD Variance %	FY08 Budgeted Totals
General Fund								
Sales and Use Tax	99,582,747	96,055,709.18	(3,527,037.82)	540,376,759	535,259,894.34	(5,116,864.66)	-0.9%	985,065,063
Service Provider Tax	4,131,950	4,413,498.66	281,548.66	24,827,689	26,018,109.49	1,190,420.49	4.8%	51,181,910
Individual Income Tax	169,174,028	148,719,712.28	(20,454,315.72)	751,388,356	728,706,421.28	(22,681,934.72)	-3.0%	1,400,953,225
Corporate Income Tax	6,550,000	4,068,427.80	(2,481,572.20)	86,150,000	82,070,802.73	(4,079,197.27)	-4.7%	194,600,000
Cigarette and Tobacco Tax	11,955,612	12,756,143.60	800,531.60	91,524,114	91,173,441.48	(350,672.52)	-0.4%	157,706,180
Public Utilities Tax	0	(245.14)	(245.14)	0	347,735.12	347,735.12	N/A	17,476,987
Insurance Companies Tax	23,560	62,382.60	38,822.60	11,803,801	13,503,086.88	1,699,285.88	14.4%	76,751,673
Estate Tax	3,800,000	3,520,694.93	(279,305.07)	18,700,000	14,656,738.91	(4,043,261.09)	-21.6%	45,258,169
Property Tax - Unorganized Territory	0	0.00	0.00	10,403,375	10,238,664.00	(164,711.00)	-1.6%	12,611,986
Income from Investments	(799,476)	147,923.05	947,399.05	1,300,524	2,085,953.64	785,429.64	60.4%	901,571
Transfer to Municipal Revenue Sharing	(14,251,374)	(12,916,124.73)	1,335,249.27	(71,295,082)	(69,974,816.60)	1,320,265.40	1.9%	(134,221,812)
Transfer from Lottery Commission	3,833,400	4,109,814.74	276,414.74	28,750,524	29,185,662.34	435,138.34	1.5%	49,834,250
Other Revenue	14,245,700	17,089,662.26	2,843,962.26	105,967,538	108,585,003.42	2,617,465.42	2.5%	209,801,236
Totals	298,246,147	278,027,599.23	(20,218,547.77)	1,599,897,598	1,571,856,697.03	(28,040,900.97)	-1.8%	3,067,920,438
Highway Fund								
Fuel Taxes	17,631,956	17,657,711.67	25,755.67	115,011,912	116,015,919.59	1,004,007.59	0.9%	223,609,445
Motor Vehicle Registration and Fees	6,129,464	6,270,059.65	140,595.65	47,371,314	46,030,094.48	(1,341,219.52)	-2.8%	87,770,064
Inspection Fees	278,475	215,489.10	(62,985.90)	2,867,538	2,655,790.20	(211,747.80)	-7.4%	4,433,458
Fines	157,406	136,860.27	(20,545.73)	1,158,214	1,045,069.09	(113,144.91)	-9.8%	2,018,239
Income from Investments	45,000	130,537.94	85,537.94	685,000	885,140.27	200,140.27	29.2%	1,000,000
Other Revenue	408,619	722,860.06	314,241.06	6,144,552	6,630,788.43	486,236.43	7.9%	9,806,671
Totals	24,650,920	25,133,518.69	482,598.69	173,238,530	173,262,802.06	24,272.06	0.0%	328,637,877

Comparison of Actual Year-to-Date Revenue Through January of Each Fiscal Year

REVENUE CATEGORY	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg	FY 2008	% Chg
GENERAL FUND										
Sales and Use Tax	\$497,849,160.48	7.7%	\$494,925,790.31	3.7%	\$513,456,218.41	3.7%	\$532,632,785.75	3.7%	\$535,259,894.34	0.5%
Service Provider Tax	\$0.00	N/A	\$21,310,682.71	N/A	\$23,022,256.14	8.0%	\$23,872,776.86	3.7%	\$26,018,109.49	9.0%
Individual Income Tax	\$672,490,319.37	6.5%	\$716,573,079.38	6.6%	\$746,293,732.81	4.1%	\$784,297,902.72	5.1%	\$822,619,978.15	4.9%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	(\$24,497,612.41)	N/A	(\$36,193,933.66)	-47.7%	(\$37,744,640.33)	-4.3%	(\$39,414,907.09)	-4.4%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	(\$54,849,530.76)	N/A	(\$45,858,175.02)	16.4%	(\$54,498,649.78)	-18.8%
Corporate Income Tax	\$49,374,235.20	21.8%	\$67,762,594.88	37.2%	\$94,895,605.08	40.0%	\$79,080,475.60	-16.7%	\$82,070,802.73	3.8%
Cigarette and Tobacco Tax	\$56,793,787.94	-2.9%	\$57,997,230.77	2.1%	\$87,587,650.83	51.0%	\$96,340,925.68	10.0%	\$91,173,441.48	-5.4%
Public Utilities Tax	(\$293,687.83)	-106.2%	(\$150,000.00)	48.9%	\$2,264.39	101.5%	(\$116,564.00)	-5247.7%	\$347,735.12	398.3%
Insurance Companies Tax	\$12,883,674.25	10.2%	\$14,940,592.35	16.0%	\$11,890,563.34	-20.4%	\$11,583,827.28	-2.6%	\$13,503,086.88	16.6%
Estate Tax	\$12,096,985.78	-13.4%	\$17,459,599.66	44.3%	\$49,367,403.81	182.8%	\$31,082,350.51	-37.0%	\$14,656,738.91	-52.8%
Property Tax - Unorganized Territory	\$8,937,092.00	-3.9%	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%	\$10,238,664.00	-1.6%
Income from Investments	\$1,143,187.88	-28.9%	\$2,310,366.90	102.1%	\$3,458,620.13	49.7%	\$1,614,548.75	-53.3%	\$2,085,953.64	29.2%
Revenue Sharing Transfers	(\$62,205,399.48)	-7.5%	(\$65,079,801.26)	-4.6%	(\$65,617,841.75)	-0.8%	(\$68,150,337.41)	-3.9%	(\$69,974,816.60)	-2.7%
Liquor Transfers	\$16,751,853.49	3.5%	\$50,013,788.33	198.6%	\$11,850.00	-100.0%	\$14,971.36	26.3%	\$0.00	-100.0%
Lottery Transfers	\$24,622,765.73	15.1%	\$29,632,072.93	20.3%	\$28,970,855.82	-2.2%	\$29,901,429.08	3.2%	\$29,185,662.34	-2.4%
Other Revenue	\$111,466,592.64	33.8%	\$111,452,586.00	0.0%	\$107,308,351.12	-3.7%	\$112,598,299.12	4.9%	\$108,585,003.42	-3.6%
TOTAL GENERAL FUND REVENUE	\$1,401,910,567.45	8.5%	\$1,504,289,347.55	7.3%	\$1,519,164,464.71	1.0%	\$1,561,553,950.95	2.8%	\$1,571,856,697.03	0.7%
HIGHWAY FUND										
Fuel Taxes	\$110,380,787.79	14.7%	\$116,010,600.88	5.1%	\$114,789,282.40	-1.1%	\$115,902,925.01	1.0%	\$116,015,919.59	0.1%
Motor Vehicle Registration and Fees	\$42,398,300.02	-1.7%	\$44,018,765.86	3.8%	\$46,751,990.29	6.2%	\$46,098,179.22	-1.4%	\$46,030,094.48	-0.1%
Inspection Fees	\$2,892,806.18	12.4%	\$2,553,344.89	-11.7%	\$2,673,189.39	4.7%	\$2,740,108.40	2.5%	\$2,655,790.20	-3.1%
Fines	\$1,087,593.52	-24.1%	\$1,033,122.89	-5.0%	\$1,056,699.39	2.3%	\$1,013,164.37	-4.1%	\$1,045,069.09	3.1%
Income from Investments	\$304,365.58	-60.1%	\$479,271.15	57.5%	\$956,578.43	99.6%	\$469,611.99	-50.9%	\$885,140.27	88.5%
Other Revenue	\$5,852,885.70	2.7%	\$5,751,709.87	-1.7%	\$6,378,015.68	10.9%	\$6,021,032.19	-5.6%	\$6,630,788.43	10.1%
TOTAL HIGHWAY FUND REVENUE	\$162,916,738.79	8.7%	\$169,846,815.54	4.3%	\$172,605,755.58	1.6%	\$172,245,021.18	-0.2%	\$173,262,802.06	0.6%

Adjusted for Service Provider Tax Split